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Annual Report 2004

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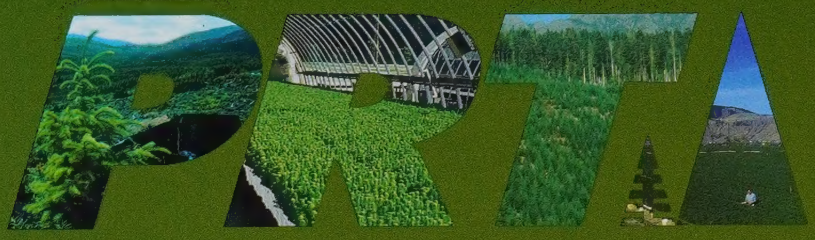
PRT Forest Regeneration Income Fund

Maintaining stability
and positioned for growth.



Company Profile

PRT was formed in 1988 to enable employees of several former British Columbia government forest nurseries to invest in the purchase of the nurseries. Since then, we have become Canada's largest forest nursery company and the largest producer of containerized forest seedlings in North America. Operating 14 nurseries in Canada and the United States, we have annual production capacity for more than 160 million forest seedlings.

Our business is founded on the three cornerstones of customer service: reliability, service and value. This foundation sustains an active growth strategy of managed acquisition and expansion.

Key to our success is our strategy of locating our facilities near our customers. This provides our customers with the benefits of local service combined with the resources of a network of nurseries with varied expertise.

PRT has established a leadership position by responding astutely to forest industry trends. We provide our customers with competitively priced products and integrated services that help them efficiently manage their seedling requirements.

Our Mission

To provide seedling supply services best suited to the needs of each customer.

Our Vision

To be the leader in seedling production.

Our Principles

We are guided by the following principles in fulfilling our mission and in pursuing our vision.

- We work closely with our customers to understand their unique needs so we can strive to provide ideal seedling supply solutions.
- We provide our employees with the opportunity to achieve success in a safe work environment.
- We follow proven and reproducible practices to ensure reliability of our core seedling services.
- We seek continuous improvement by working together, by listening to others and by encouraging innovation.
- We will not let success make us complacent or allow failure to prevent us from continuously trying to improve.

Following these principles, we will make the best use of our human, physical and financial resources, we will provide value to our customers and our shareholders, and we will make progress toward our vision.

PRT Operations

1. **Cold storage,** Terrace, BC
2. **PRT Summit,** Telkwa, BC
3. **PRT Red Rock,** Prince George, BC
4. **PRT Campbell River,** Campbell River, BC
5. **PRT Corporate Office,** Victoria, BC
6. **PRT Executive Office,** Vancouver, BC
7. **PRT Armstrong,** Armstrong, BC
8. **PRT Vernon,** Vernon, BC
9. **PRT Summerland,** Summerland, BC
10. **PRT Harrop,** Nelson, BC
11. **PRT Beaverlodge,** Beaverlodge, AB
12. **Cold storage,** Big River, SK
13. **PRT Prince Albert,** Prince Albert, SK
14. **PRT Dryden,** Dryden, ON
15. **Cold storage,** Manitouwadge, ON
16. **PRT Kirkland Lake,** Kirkland Lake, ON
17. **PRT Oregon,** Hubbard, OR
18. **Cold storage,** Medford, OR
19. **PRT Nevada,** Pahrump, NV

PRT
Altogether a better approach

2004 Operating Highlights and Milestones

- Cash distributions remain stable despite difficult year
- Oregon nursery increases market presence in the U.S. Pacific Northwest
- Innovative Nevada nursery gains customer confidence
- Reorganization lowers cost structure, improves productivity
- Acquisition of B.C. nursery increases capacity by 13 million trees
- Growth strategy leads to increasing U.S. sales
- Safety record continues to improve

Financial Highlights

(in millions of dollars, except per Unit amounts)

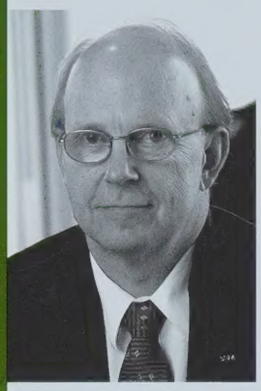
	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Revenue	$ 34.8	$ 35.0	$ 34.3
Operating earnings [1,3]	7.5	6.8	7.6
Net earnings	4.9	4.8	4.9
Per Trust Unit	0.67	0.67	0.73
Distributable cash [3]	6.1	6.2	6.8
Per Trust Unit [3]	0.82	0.85	1.01
Cash distributions per Trust Unit [2]	0.88	0.88	0.99
Cash generated from operations (before net change in non-cash working capital items)	6.9	7.3	7.5
Net additions to capital assets, including acquisitions	8.9	3.0	1.7
Total assets	77.8	68.1	68.7
Unitholders' equity	59.1	57.6	59.9
Per Trust Unit	7.79	7.93	8.26
Price range per unit on the Toronto Stock Exchange:			
High	9.90	10.30	11.26
Low	8.73	8.60	9.51
Closing price at December 31	9.43	9.00	10.01

1 Defined as earnings before interest, depreciation and amortization, income taxes, gains or losses on asset sales and other non-operating income or loss items.

2 Including dividend declared in subsequent fiscal year on account of current year's operations.

3 Operating earnings and distributable cash are terms which do not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measure provided by other reporting entities.

Report to Unitholders



All companies face adversity at times and good companies make progress as a result. In 2004, PRT endured a year that tested its business strategy, its employees and its promise to unitholders to deliver stable returns.

Despite the lower revenues and the higher expenses attributable to the one-time costs of our significant reorganization, we held fast to our strategy and our commitments. Our persistence resulted in a satisfactory performance for PRT in 2004. And by the end of the year, the benefits of our efforts to expand our business, to lower our cost structure and to improve our efficiency were evident. What is more, the forest products industry was showing signs of recovery.

The outlook for PRT and for the industry is brighter than at any time during the last three years and while challenges remain, the changes we made during 2004 leave us better prepared to deal with whatever comes our way.

Financial performance stable in demanding year

Our financial performance in 2004 reflects the challenges of our principal customer market: Canadian forest products companies. Since 2000, these companies have experienced difficult operating conditions because of lower commodity prices and, more recently, a stronger Canadian dollar and high energy and transport costs. These circumstances are exacerbated by a long-running softwood lumber trade dispute with the United States.

While these factors are beyond our control, we did our best to manage their effect on our business. We reorganized our management structure and stripped substantial costs out of our operations by consolidating two nurseries and improving our productivity. We also continued to execute our growth strategy, acquiring a new nursery to increase our market share.

There was a lot to accomplish, and our financial performance was diminished in the short term. The steps we took, however, have made us a more-efficient and a more-effective company over the long term.

Although new contract values declined approximately 6% in 2004, higher service revenues and sales from the newly acquired nursery kept revenues in line with those in 2003. An improved foreign exchange position, lower greenhouse heating and other seedling production expenses resulted in increased net earnings in 2004.

Cash distributions during 2004 were maintained at $0.88 per unit.

	2004	2003	% change
Revenue	$ 34,770	$ 34,955	(0.5)
Net earnings	$ 4,921	$ 4,836	1.8
Distributable cash flow	$ 6,085	$ 6,176	(1.5)

All dollar figures in thousands

Growth remains a continuing strategic priority

Growth continues to be a long-term strategic priority for PRT, and we are pursuing expansion slowly but steadily. Our goal is to build market share by offering superior value and customer service and to carefully acquire assets to avoid overtaxing our management team and our balance sheet.

In mid-2004, we acquired H.N. Hybrid Nurseries Ltd., a private B.C. forest seedling company. This acquisition complements our other nursery assets and our customer base in British Columbia, which accounts for nearly 50% of our revenue. The nursery's warm location on the B.C. coast offers additional potential for outdoor compound seedling production, which is a vital element of our energy cost-management strategy.

Our U.S. operations are beginning to make a significant contribution to revenues following our two key nursery-site acquisitions: Oregon in 2004 and Nevada during 2003. Roughly 15% of our seedling revenue in 2004 was derived from U.S. customers, compared with approximately 10% in 2003. The capabilities of our people in Oregon, who established reliable operations quickly and cost-effectively, have been impressive and much appreciated by our customers.

We have long viewed expanded U.S. operations as an excellent growth opportunity. The forest seedling industry in the United States remains fragmented, with numerous small operators, so we continue to investigate opportunities to purchase operations there. Many nurseries are privately owned and face succession issues similar to those that led to Hybrid's sale to us in 2004.

Reorganizing for continuous improvement

Some organizations respond to tough times like those PRT endured in 2004 by reducing staff and equipment maintenance or by employing other short-sighted tactics. We chose instead to demonstrate our resolve — by improving our organizational structure, by investing to increase our productivity and by helping our employees improve their leadership skills.

We strengthened our organization by centralizing our administration and by establishing a dedicated sales force. We also closed our Cochrane, Ontario, nursery and our Reid Collins nursery near Aldergrove, British Columbia. These changes leave us with a stronger organization better suited to taking advantage of growth opportunities.

An improving outlook

We have good reason to believe that the worst may be over for the Canadian forest products industry. By early 2005, our new seedling contract values and volumes were up 12% year over year, a significant jump in a typically slow-growth industry.

Rising orders give us confidence that our sales and marketing efforts are paying off and that the forest products industry is beginning to turn around. Other encouraging evidence of an industry turnaround includes increased reforestation resulting from forest fires and from accelerated harvesting to prevent the spread of the mountain pine beetle in British Columbia.

Our priorities for 2005 are to ensure that

- our customers get what they need from our production efficiency efforts and reorganization
- our people get the support they need to meet our goals for improved productivity and streamlined administration
- our quest for long-term growth continues

Our reorganization in 2004 was a necessary and productive undertaking that was also very disruptive. We genuinely appreciate and are extremely proud of the efforts of our employees to do what was needed to be done under difficult circumstances.

Since becoming an income trust in 1997, we have demonstrated our ability to endure the industry cycles that are characteristic of the forest products industry. In doing so, we have maintained stability, and we remain committed to meeting unitholders' expectations.

On behalf of the trustees and management,

Colin A. C. Dobell, Trustee and Chairman

John Kitchen, President & CEO,
Pacific Regeneration Technologies Inc.

Farewell to a friend and a leader

Leadership has been described as the ability to create a compelling vision and to translate it into action and sustain it. By that definition, we lost a great leader when Dan Davies passed away in late 2004 after a long battle with cancer.

Dan was one of the founders of PRT. In 1987, while working as an accountant in public practice, he was approached to help with the privatization of several B.C. government–owned forest nurseries. He was eager to help and played a crucial part in putting together PRT's successful bid.

After later joining PRT, Dan played a key role in the company's rapid expansion and in PRT's acceptance as Canada's largest forest nursery company. He was our first chief financial officer and was instrumental in the completion of our initial public offering in 1997.

Dan earned the respect of everybody at PRT for his hard work and unfailing dedication. In spring 2002, we honoured Dan by having him plant PRT's one billionth ceremonial tree in Victoria.

I worked closely with Dan when I joined PRT in 1994 and I will greatly miss his dedication, his counsel and his humour.

John Kitchen

PRT
Altogether a better approach

Operations Report

Maintaining stability and positioned for growth . . .

In 2004, PRT continued to pursue the two-part growth strategy that has made it an industry leader: external growth through selective acquisitions and internal growth through increased productivity and sales. Our approach again proved its value, enabling us to weather a difficult period that saw revenue and sales volumes drop slightly.

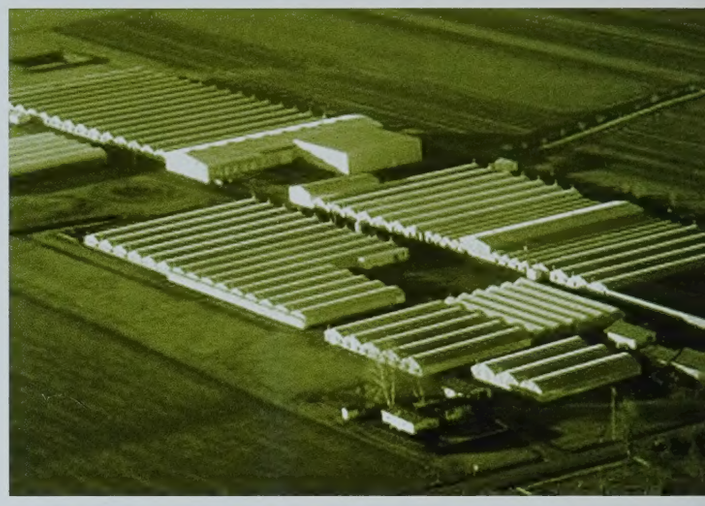
Seedling volume was little changed in 2004 compared with the previous year — 137 million against 138 million in 2003. These totals exclude sales from a nursery purchased in mid-2004. New seedling contract values, however, declined by 6% because of shifts within regional markets that resulted in smaller average seedling size. The decline in revenue was largely offset by higher year-over-year revenues from ancillary services, such as tree planting and cold storage.

Forest products industry changing for the better

In 2004, the consolidation of the forest products industry continued at a rapid pace. There were several large mergers and acquisitions in B.C. alone. Canfor Corporation added to its sawmill operations by merging with Slocan Forest Products Ltd. in spring 2004. At the same time, Lignum Ltd. was acquired by Riverside Forest Products Limited, which, in turn, was taken over by Tolko Industries Ltd. late in the year. Lastly, Weldwood of Canada Limited was acquired by West Fraser Timber Co. Ltd. at year-end.

The consolidation trend, which is expected to continue, is good news for forest products companies and for PRT. As forest products companies get progressively larger, integrated buying decisions become more common, as does the outsourcing of non-core activities, such as silviculture. PRT is well positioned to capitalize on this trend as the largest containerized seedling producer in North America. We are able to influence buying decisions with competitive production systems and pricing, and higher levels of customer service.

Demand in Canada for forest seedlings has remained consistent for many years, as have harvest rates. Provincial government silviculture activities related to wildfire and insect damage have lagged, however, causing a reforestation backlog. We expect demand for forest seedlings to increase as this backlog is addressed and as industry fundamentals and cash flows continue to improve, supporting higher silviculture spending.



Our Hubbard, Oregon nursery has capacity for approximately 120,000 seedling blocks and it produced about 100,000 seedling blocks in 2004.

Growth strategy begins to pay off

Our growth strategy first entails selling seedlings produced at existing PRT nurseries to customers in new markets. After establishing customer relationships and building trust, we can then build or acquire a local nursery to establish a local presence.

We did not enter any new markets in 2004, but we did continue to increase our market share by acquiring competitors. In mid-2004, we purchased H.N. Hybrid Nurseries Ltd., a 13 million seedling nursery in southwestern B.C. that we consider to be one of the best in Canada. This nursery is an excellent fit with our other operations and provides numerous benefits:

- approximately $3.5 million in annual revenues
- potential to add outdoor production space for another two million seedlings
- 80% greenhouse production, 20% outdoor compound production
- diversified customer base with top-six customers accounting for less than 60% of sales

This acquisition is expected to increase our earnings beginning in 2005.

In the meantime, two U.S. nursery-site acquisitions made in 2003 as part of our staged expansion plan into the American market are having a measurable and meaningful impact on our sales.

U.S. seedling sales (percent of total sales)

2004	2003	2002
15%	10%	8%

Our Hubbard, Oregon nursery has capacity for approximately 120,000 seedling blocks and it produced about 100,000 seedling blocks in 2004. Customer acceptance has been good, and we expect to increase production to about 130,000 seedling blocks in 2005, including new outdoor capacity. We expect our U.S. volumes to continue to rise in subsequent years.

Similarly, our nursery site in the Pahrump Valley, near Las Vegas, Nevada is beginning to perform nicely. Our objective with this nursery was to increase customer confidence in our ability to grow high-quality seedlings cost-effectively in an open-compound desert facility. We enjoyed a significant increase in sales at this nursery in 2004, and orders for 2005 are up approximately fourfold. It's a big vote of confidence from our customers in our ability to do something that is revolutionary in our business.

Lower costs benefit us and our customers

A key element of our growth strategy is to produce seedlings in fundamentally more cost-effective ways. But we can't do that by simply getting bigger. We must also work more closely with our customers, raise our efficiency and lower our production costs.

To maintain our leadership position in forest seedlings, we strive to contribute to our customers' drive to be more efficient, as they operate in a globally competitive industry. We're doing that by developing new production techniques, such as our mini-plug programme, that have the potential to reduce our dependence on natural gas, and to improve the value of our seedlings for our customers.

High energy costs, which now appear to be here to stay, have eroded our margins. We continue to investigate alternative energy sources, but our most effective strategy is energy conservation. Using various methods to lower our natural gas usage, we have achieved a 20% reduction. We are confident that our ongoing conservation program, which includes investing in energy-saving equipment, can maintain these savings. We also continue to focus on outdoor growing in warmer areas, such as Nevada and B.C.'s Okanagan Valley, which requires less energy.

Reorganization keeps growth strategy on track

PRT has been challenged for the past three years by uncertainties in the forest products industry. Weak industry fundamentals have given rise to customer demands for us to lower our prices, which, in turn, has cut into our revenues. This put pressure directly on our bottom line as our cost structure is relatively fixed.

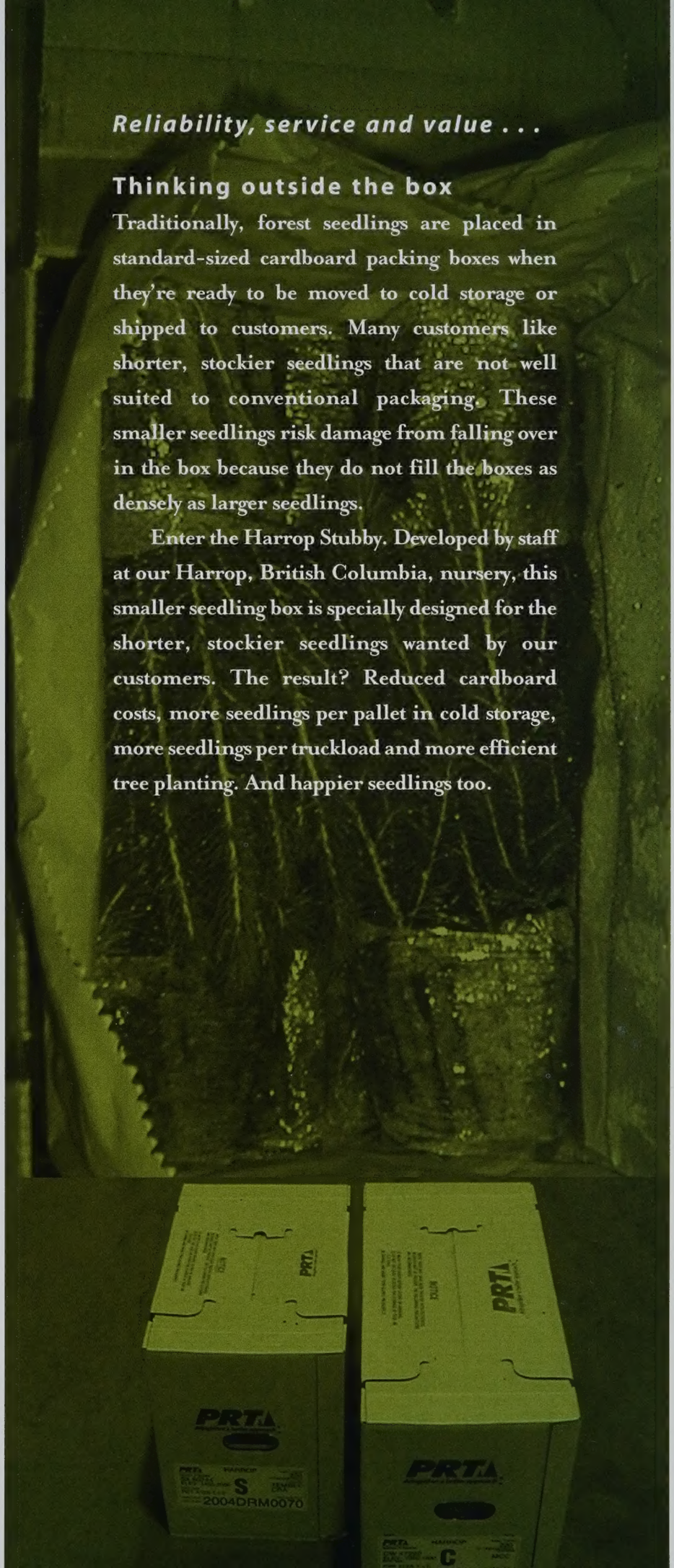
Many components, such as the price of natural gas, are market based and beyond our control. There are, however, cost elements we can control. So in early 2004 we undertook

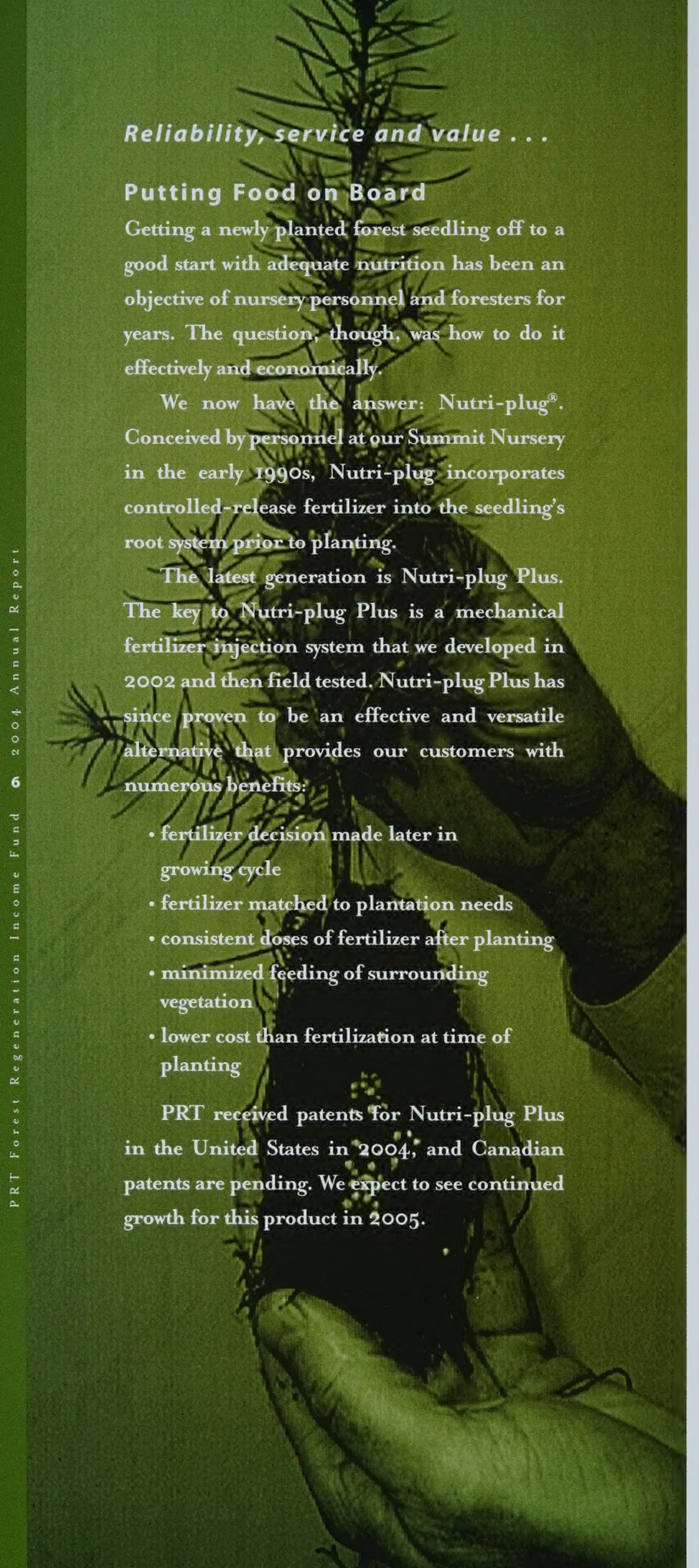
Reliability, service and value . . .

Thinking outside the box

Traditionally, forest seedlings are placed in standard-sized cardboard packing boxes when they're ready to be moved to cold storage or shipped to customers. Many customers like shorter, stockier seedlings that are not well suited to conventional packaging. These smaller seedlings risk damage from falling over in the box because they do not fill the boxes as densely as larger seedlings.

Enter the Harrop Stubby. Developed by staff at our Harrop, British Columbia, nursery, this smaller seedling box is specially designed for the shorter, stockier seedlings wanted by our customers. The result? Reduced cardboard costs, more seedlings per pallet in cold storage, more seedlings per truckload and more efficient tree planting. And happier seedlings too.





Reliability, service and value . . .

Putting Food on Board

Getting a newly planted forest seedling off to a good start with adequate nutrition has been an objective of nursery personnel and foresters for years. The question, though, was how to do it effectively and economically.

We now have the answer: Nutri-plug®. Conceived by personnel at our Summit Nursery in the early 1990s, Nutri-plug incorporates controlled-release fertilizer into the seedling's root system prior to planting.

The latest generation is Nutri-plug Plus. The key to Nutri-plug Plus is a mechanical fertilizer injection system that we developed in 2002 and then field tested. Nutri-plug Plus has since proven to be an effective and versatile alternative that provides our customers with numerous benefits:

- fertilizer decision made later in growing cycle
- fertilizer matched to plantation needs
- consistent doses of fertilizer after planting
- minimized feeding of surrounding vegetation
- lower cost than fertilization at time of planting

PRT received patents for Nutri-plug Plus in the United States in 2004, and Canadian patents are pending. We expect to see continued growth for this product in 2005.

a significant corporate reorganization to maximize our internal efficiencies and to enhance our customer service and support.

We took action by consolidating nurseries and by reorganizing our sales force to position PRT for steady future growth. These changes were not made easily or without some short-term suffering. But for us to remain true to our growth strategy they were absolutely necessary. Making them, however, caused us to incur substantial one-time costs in 2004: $267,000 for reorganization and $453,000 for nursery site consolidation. But now that they are made, we anticipate achieving perpetual annual savings of approximately $250,000 in administration costs plus economies of scale resulting from the consolidations.

Some savings realized from the reorganization in 2004 were offset by increased expenditures in sales and marketing. But these additional expenditures resulted in higher revenues in some markets, which satisfied one of our key objectives: increase revenue through a heightened focus on customer service.

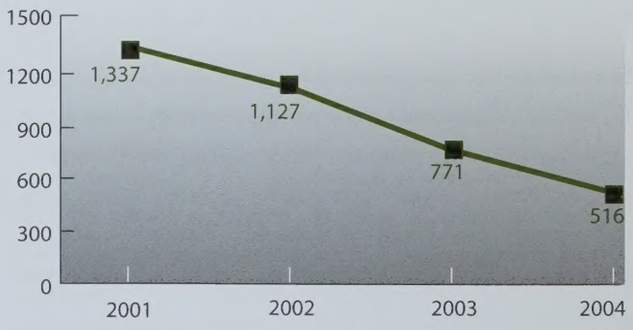
Employee training and safety remain top priorities

In 2004, we continued to invest in leadership training for our employees. The goal of our internal leadership development program, Altogether Growing Better, is to increase knowledge sharing, to improve leadership skills and to encourage innovation throughout our organization.

This is a long-term program that we started in 2003 and began offering to staff. We graduated 20 employees in 2003, and our second group of 20 employees graduated in spring 2005.

Employee safety and health is a top priority at all our nursery sites. Thanks to safer work practices and to safety training and proactive programs to reduce musculoskeletal injuries, we have steadily reduced lost-time injury claims over the past four years. The significant claim-cost reductions we have realized will enable us to lower our workers compensation premiums beginning in 2005.

Time Lost in Days Due to Accidents



About the Fund

The PRT Forest Regeneration Income Fund (the "Fund") is an open-ended, single-purpose Trust which owns all of the common shares and subordinated notes of Pacific Regeneration Technologies Inc. ("PRT"). Units of the Fund are traded on the Toronto Stock Exchange (PRT.UN) and are eligible for Registered Retirement Savings Plans (RRSP), Registered Retirement Income Funds (RRIF), Deferred Profit Sharing Plans (DPSP), and Registered Education Saving Plans (RESP).

PRT is Canada's largest forest nursery company, producing over 160 million seedling per year. Operations are conducted from 14 nurseries in Canada and the United States.

Management

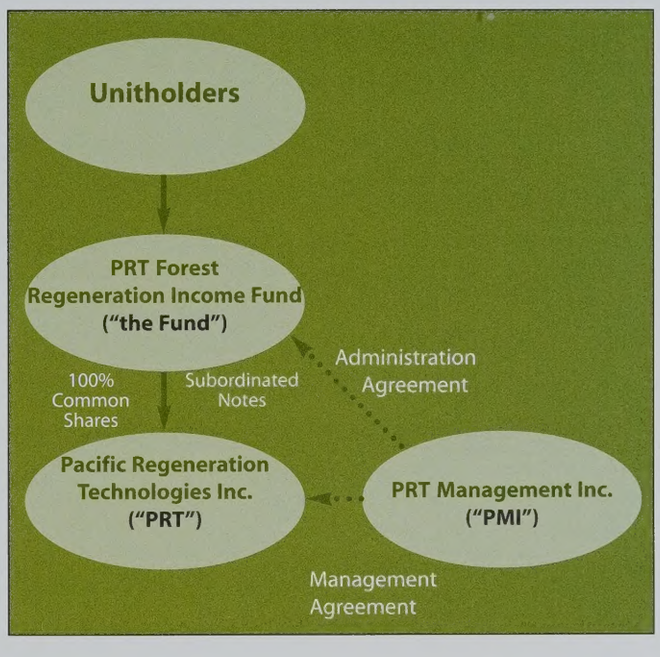
Under a Management Agreement, PRT Management Inc. ("PMI") provides to the Company management and administrative personnel and services as well as the services of the President and Chief Executive Officer, the Vice President Business Development, and the Vice President Finance and Administration and CFO. For these serviecs, PMI is entitled to receive a fee based upon reimbursement of its internal costs without allowance for profit. In addition, as incentive to increase returns to Unitholders, PMI may receive incentive fees which are earned only when cash distributions to Unitholders exceed certain defined levels starting at $1.10 per Unit. The voting shares of PMI are owned by approximately 100 shareholders who are current directors, officers and employees of PMI and PRT (see illustration).

Governance

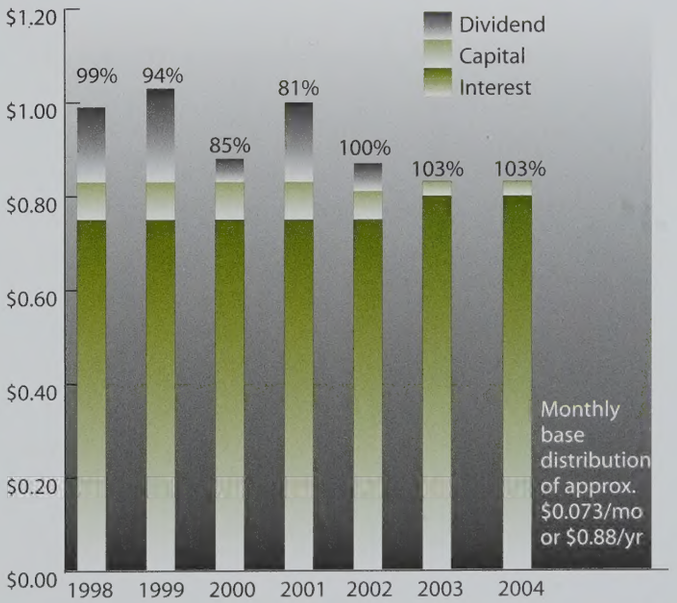
The Board of Trustees of the Fund consists of three members, all of whom are independent of, and unrelated to management and PMI. The Board of PRT consists of five members, three of whom are independent of management and appointed by the Fund Trustees. Mr. Dobell, the Chairman of the Board of Trustees, also serves as the Chairman of the Board of PRT. The trustees are appointed annually at the Annual General Meeting of Unitholders. More information on the Fund's governance practices is available in the Information Circular of the Fund, prepared in connection with its May 17, 2005 Annual General Meeting of Unitholders.

Distributions

The Fund's Policy is to distribute net interest received from PRT on a monthly basis, and dividends received on account of the prior year's operations on an annual basis. PRT's distributions are not based on a depleting asset base.
In determining the amount to distribute to Unitholders, PRT's Board seeks to strike a balance between funding expansion and cash distributions to Unitholders, with a view to maintaining a strong financial position. Since inception, the Fund has distributed over $45 million to Unitholders, while maintaining and significantly expanding its productive capacity and geographic base of operations.



Distribution History and Payout Ratio %[1]



(1) Distributions to cash flow from operations less sustaining Capex and Reserves

Management's Discussion & Analysis

We are pleased to present the 2004 annual report for the PRT Forest Regeneration Income Fund. This section presents management's view of the operating results, cash flows, financial position and business of the Fund, and its wholly owned operating subsidiary, Pacific Regeneration Technologies Inc. ("PRT").

This discussion contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations for future orders, the outlook for future energy prices, plans and opportunities for capital spending, and other statements contained in this discussion that are not historical fact. Risks and uncertainties include, but are not limited to future commodity prices, exchange rate risks, agricultural risks, the outlook for the forest industry, and other risks identified from time to time in the Fund's annual report, annual information return, prospectus, and other filing documents. These documents are available in electronic form at www.sedar.com, or by contacting the Fund directly. Readers are cautioned not to place undue reliance on forward looking statements.

Challenging market conditions impacted PRT's financial results over the past three years. Order volumes and pricing for forest seedlings over this period were affected by generally poor business conditions in the forest industry in 2002 and 2003, which in turn were caused by the combined effects of commodity prices and the ongoing softwood lumber dispute. In addition, continuing high natural gas prices and a stronger Canadian dollar put pressure on PRT's operating margins. Over the past year, PRT implemented a corporate restructuring plus a number of projects and strategies to lower costs and reduce its exposure to energy price and exchange rate changes. Despite absorbing the costs of carrying out these initiatives, 2004 earnings and distributable cash performance were similar to 2003. With these initiatives now substantially complete, they are expected to help stabilize and improve operating performance in future years. In combination with a stronger market outlook, we are optimistic that we will achieve improved financial results in 2005.

Operating Results

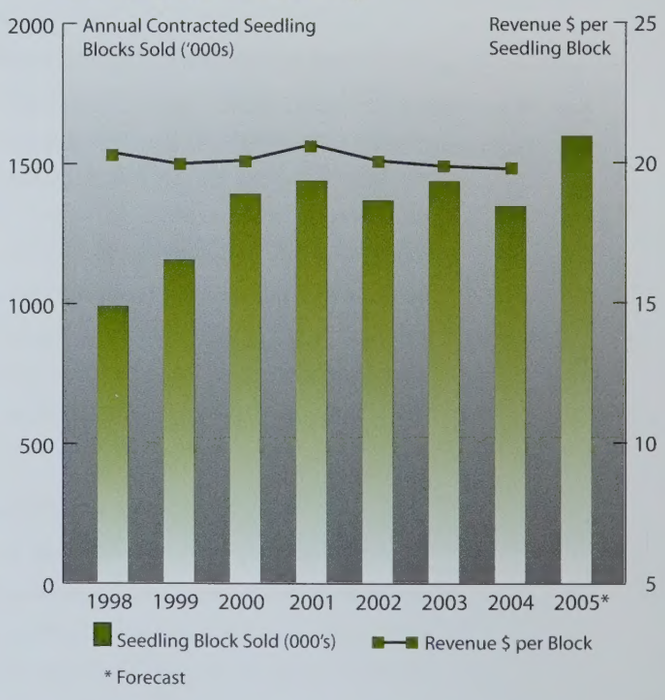
For the year ended December 31, 2004

Revenues for the year decreased by only 0.5% from 2003, despite approximately 6% lower seedling contract block volumes. This was primarily the result of incremental revenue associated with the Hybrid nursery acquisition completed in the third quarter, as well as higher service revenues. PRT's average realized seedling pricing was slightly lower, attributable to continuing competitive market conditions and a stronger Canadian dollar. For 2005 we expect to achieve increased orders and to produce in excess of 1.6 million seedling blocks.

Costs of production rose moderately as a percentage of revenue, to 58.7% from 58.2% in the prior year. Although there was a higher proportion of lower margin service revenues in 2004, this was offset by lower greenhouse heating costs, improved direct labour utilization, and lower maintenance costs. The site consolidation projects undertaken during the year partially contributed to these improvements.

Greenhouse heating costs were lower in 2004, due to lower commodity prices for natural gas during the winter months, and reduced consumption. As a percentage of revenue, heating costs dropped to 5% from 6% in the prior year. PRT did not hedge any of its gas purchases in 2003, which led to increased price exposure. In 2004 however, approximately one third of the Company's natural gas usage was contracted forward at fixed prices. This forward buying program will continue into 2005. With this program in place, management estimates that the Fund's sensitivity to natural gas price changes is approximately $0.02 in per unit distributable cash flow for every $1.00 per gigajoule change in the average annual cost of natural gas.

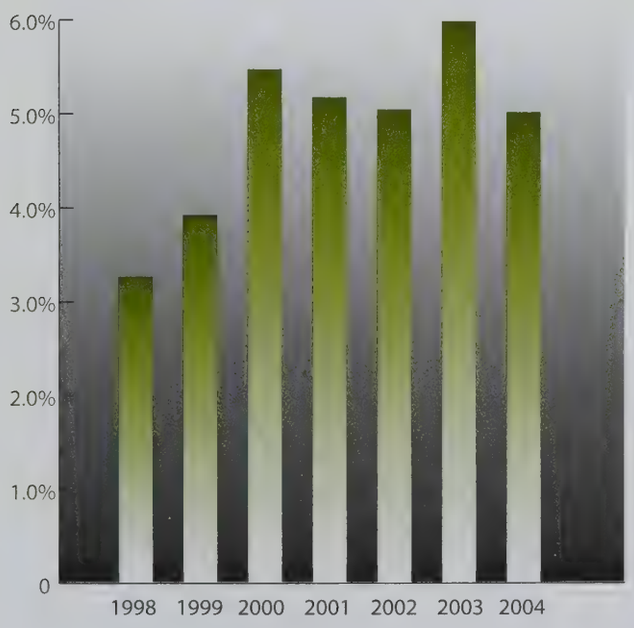
Block space and pricing



Combined Selling, General and Administration costs were $78,000 lower overall, despite the impact of $267,000 in one time costs associated with carrying out the internal reorganization project in 2004. This initiative realigned management into functional groups, designed to increase customer and production focus, and centralized administration to achieve greater efficiencies. Offsetting these one-time costs were lower incentive compensation costs in 2004. Included in Selling, General and Administration costs is the management fee to PRT Management Inc ("PMI") for corporate management and administration. PMI is owned by current and former employees, officers and directors of PRT, and as such is a related party. Fees payable to PMI are determined based on reimbursement of PMI's actual costs without allowance for profit, and the terms of the agreement are disclosed in note 14 to the Fund's financial statements.

With increasing market share in the United States, the Company has foreign exchange exposure on its US dollar seedling supply contracts. In 2003, most US customers were serviced from Canadian nursery sites, and this led to significant foreign exchange losses as the Canadian dollar strengthened from price changes and conversion of US dollar receipts. To help reduce this exposure, the company has created a natural currency hedge by expanding its production capacity in the US, and financing this expansion with US dollar denominated debt. Accordingly, with further Canadian dollar strengthening in 2004, the Company incurred

Heating costs as a percentage of revenue



Reliability, service and value . . .

Squeezing in the seeds ever so gently

Many of our seedlings are germinated in styrofoam blocks that hold from 60 to 112 seedlings depending on the size of seedling desired by the customer. In 2004, our Harrop nursery took on a cost-saving project that looked at the feasibility of using styrofoam blocks built to hold 420 seedlings. It worked rather well.

The higher-density germination blocks take up the same space but allow us to germinate five times as many seedlings. This provides gas-heat savings — a significant cost element — and conserves seed.

When the tiny trees are six to eight weeks old they are sent down an automated transplanting line to be transplanted into lower-density destination blocks, where they remain until they are ready to be shipped to our customers.

Our successful trial program in 2004 saw 14,000 seedling blocks filled from the higher-density blocks at Harrop. We plan to increase that number to approximately 25,000 in 2005.

Reliability, service and value . . .

Inventing a better way at Summerland

Many of our nurseries use polyethylene tubes to distribute heat throughout the greenhouses. These convection tubes normally last for only about two seasons. Ivan Haag, our Nursery Manager at Summerland, figured there had to be a way to extend the life of the tubes.

Ivan invented a metal hanger that does two things. It prevents the tubes from getting dirty which reduces their lifespan and it lessens wear and tear on the tubes from wind or greenhouse staff moving through the seedling crop. The tubes hang vertically out of the way when the furnaces are off.

The result is that the tubes now last for as long as five years and require less repair and maintenance overall. Oh, but Ivan's not done yet. He's working with a supplier to provide plastic tubing that is more resistant to ultraviolet light and that he hopes will last up to eight years.

a $375,000 exchange gain, mainly on the translation of US dollar debt. Foreign currency exchange gains and losses may be realized or unrealized. The Fund records realized foreign exchange gains and losses on the translation of cash balances and settlements of monetary items, and records unrealized gains and losses on the translation of non-cash monetary balances. Only realized foreign exchange gains and losses are included in the determination of distributable cash flow. Management estimates for 2005 that the Fund's sensitivity to the Canadian/US dollar exchange rate is less than $0.005 in per unit distributable cash flow for every CA$0.01 change in relative value of the Canadian dollar.

Interest expense for the year increased by $387,000 as a result of increased long term borrowings to finance nursery site acquisitions.

Earnings in the period were also impacted by site consolidation costs related to the previously announced Cochrane, Ontario nursery relocation and Aldergrove, BC nursery closure, as well as relocation of certain other greenhouse capacity to warmer growing climates. These projects were substantially completed by the end of year, and are expected to result in improved operating costs in 2005. Costs associated with dismantling and relocating nursery assets are included as charges to income as incurred. The full cost of these projects is outlined in note 5 to the financial statements.

Depreciation charges increased year over year due to the acquisition of two sites during the year, and from write downs associated with the Cochrane nursery which was closed. Assets at the Aldergrove nursery site were leased to a third party, and therefore continued to be depreciated in 2004. This will cease in 2005 once the site is sold.

Pre-tax earnings in 2004 were $288,000 lower, mainly as a result of the site consolidation charges discussed above.

The Fund recorded a $1,252,000 tax recovery for 2004, which was an increase of $373,000 from 2003 due to lower pre-tax earnings and the cumulative impact of tax rate recoveries on its future income tax liability account.

Despite the lower seedling contract volumes in 2004, and the impact of one-time charges for site consolidations and the internal reorganization, improved foreign exchange exposure helped increase consolidated net earnings by $85,000 or 2% over 2003. Earnings per unit were comparable at $0.67 in both periods.

The Fund determines distributable cash flow as cash flow from operating activities before changes in non-cash working capital items adjusted for seedling container depreciation, sustaining capital expenditures, debt repayment, gains or losses on asset sales, unrealized foreign exchange gains and losses, and such other reserves as the board of PRT and the Trustees of the Fund may consider appropriate. Certain expense items which are incurred as part of earnings enhancing capital projects may be excluded from the determination of distributable cash flow if the overall project return meets the Company's internal investment hurdle rates and is funded from external sources, such as term debt or equity financing. In 2003 and 2004, site consolidation charges related to the dismantling and relocation of nursery assets were excluded on this basis. The Fund considers distributable cash flow as defined to be a useful measure of the free cash flow from operations available for making unitholder distributions, as it is determined after providing for the maintenance and replacement of PRT's underlying asset base, as well as providing for the financing of expansionary capital spending. Calculations of distributable cash flow are included in note 10 to the financial statements.

Distributable cash flow for the year was $91,000 lower than in 2003, primarily as a consequence of the lower seedling contract volumes in 2004. Although the Fund made higher scheduled debt repayments in 2004, this impact was partially offset by lower sustaining capital spending due to lower production volumes. On a per unit basis, distributable cash flow for the year was $0.82 per unit, down from the $0.85 earned in 2003. In addition to operating factors, this decline was also impacted by the greater number of units outstanding in the current year.

Three months ended December 31, 2004 compared to three months ended December 31, 2003

Revenues in the three month period decreased slightly relative to the same period last year. While annual seedling contract values were lower in 2004, this reduction was largely offset by increased revenues for tree planting and other services, as well as revenues from the Hybrid nursery acquisition. Costs of production were slightly higher in the quarter, caused by poor crop yields at one nursery and an increase in service revenues which have lower margins.

Overhead costs in the quarter were lower on a year over year basis, due to lower spending on research and development, information systems, and compensation costs.

During the quarter PRT recorded a $201,000 foreign exchange gain, as compared to a loss of $192,000 in the corresponding prior year period. While the dollar strengthened over both periods, in the current year PRT benefited from carrying US dollar denominated debt, which was used to finance the acquisition of the Oregon nursery. The acquisition and financing were both part of the company's strategy to reduce foreign exchange risk by creating a natural hedge on its US dollar revenue stream. In the prior year, losses were incurred due to holding US dollar denominated receivables from export sales.

Financing costs increased by $98,000 during the quarter as a result of borrowings used to finance two nursery acquisitions during 2004. Depreciation expenses were also higher as a result of these acquisitions.

Income tax recoveries in the quarter were higher mainly as a result of an overall reduction in PRT's effective tax rate.

Net earnings for the quarter increased by $212,000, or $0.03 per unit, mainly due to the effect of improved foreign exchange exposure as well as higher tax recoveries.

Distributable cash flow in the quarter declined by $112,000 on higher scheduled debt repayments. On a per unit basis, distributable cash flow was $0.21 as compared to $0.25 in the fourth quarter of 2003.

Liquidity and Cash Flow

For the year ended December 31, 2004

Cash flows from operating activities increased by $1,480,000 in the year, which was the result of a $1,853,000 year-over-year reduction in non-cash working capital items, partially offset by lower pre-tax operating earnings after excluding unrealized foreign exchange gains. Non-cash working capital changes were mainly the result of more timely progress billings under seedling contracts, and carrying higher accounts payable balances. In 2004 a concerted effort was made to reduce working capital investments.

Distributions paid to Unitholders decreased by $1,713,000 in 2004. Distributions in 2003 were higher as they included the one-time effect of a change in the distribution policy to monthly distributions that was effective January 1, 2003, and the February 2003 "top-up" distribution related to 2002 operations. Distributions declared during 2004 out of current year operating cash flow totalled $0.88 per unit, in line with the same figure for 2003. Distributions paid were in excess of the $0.82 per unit generated by operations. Management considered this shortfall to be temporary, caused

by the recent industry cycle, and so the Fund elected to maintain its rate of distributions unchanged and fund any shortfall from PRT's working capital reserves.

With improved cash flow from operating activities the Company was able to cover the excess distributions with only a $101,000 increase in its operating line. The Fund has up to $7,700,000 available under its operating facility, subject to certain margining requirements. At year-end, the full amount was available and $6,788,000 had been drawn under the facility.

During the year the Fund purchased property, plant and equipment totalling $5,142,000, an increase of $2,152,000 over the prior year. Of the total, $752,000 was to purchase seedling growing containers, and $201,000 was for replacement of assets through normal use. The remainder was for earnings enhancing capital expenditures, and was mainly attributable to continuing development of US nursery facilities, particularly the purchase and refit of the Oregon nursery site. Other significant projects included the consolidation of Ontario nursery facilities. Sustaining capital spending in 2004 was financed from operating cash flow, while seedling containers were financed from cash reserves created for this purpose. Earnings enhancing capital was financed from term debt draws against the Company's standby facilities and, to a lesser extent, by vendor financing. Only earnings enhancing investments are financed from the Company's term debt facilities. PRT has up to $20,438,000 available under these facilities, of which $12,100,000 remained available at year end.

Payments Due by Period

Contractual Obligations	Total	Less than 1 Year	1 – 3 years	4 – 5 years	After 5 years
Long Term Debt	8,601,367	865,328	2,533,918	5,202,121	—
Operating Leases	516,530	164,830	92,370	61,580	197,750
Total Contractual Obligations	9,117,897	1,030,158	2,626,288	5,263,701	197,750

Summary of Quarterly Results

Figures below are presented in $000's, except for per trust unit figures.

	2003					2004				
	1st Q	2nd Q	3rd Q	4th Q	January to December 31	1st Q	2nd Q	3rd Q	4th Q	January to December 31
Operating Results										
Revenues	7,422	13,351	5,530	8,652	34,955	7,193	12,526	6,458	8,593	34,770
Net earnings	1,118	2,137	174	1,407	4,836	833	1,641	828	1,619	4,921
Per Unit [1]	$0.15	$0.30	$0.03	$0.19	$0.67	$0.11	$0.23	$0.11	$0.22	$0.67
Distributable cash	1,381	3,022	(67)	1,840	6,176	1,153	2,898	336	1,698	6,085
Per Unit	$0.19	$0.42	$(0.01)	$0.25	$0.85	$0.16	$0.40	$0.05	$0.21	$0.82
Distributions declared	2,373	1,589	1,589	1,598	7,149	1,589	1,589	1,636	1,702	6,516
Per Unit	$0.33	$0.22	$0.22	$0.22	$0.99	$0.22	$0.22	$0.22	$0.22	$0.88

Note 1: Basic and Fully Diluted

The above summarized financial data is presented in Canadian dollars, and has been prepared in accordance with Canadian generally accepted accounting principles, with the exception of distributable cash amounts. Distributable Cash Flow is a term which does not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

The Fund's operating results are seasonal, driven by the varying levels of activity required throughout the seedling growing cycle, as well as the seasonal nature of silviculture services. Revenues and cash flow are affected by PRT's seedling crop cycles and by the seasonality of PRT's customers' planting season. PRT recognizes revenue under contracts on a percentage completion basis with costs incurred as a base. Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered. As such, fluctuations between quarters occur depending upon the activities in the quarter. Comparatively high cost activities, such as harvesting, typically occur in the second and fourth quarters, and accordingly these quarters normally reflect a higher proportion of annual revenues.

Operating results in the third quarter of 2003 were lower than the same period of 2004 due to revenue timing shifts to the second quarter, foreign exchange losses, and costs associated with the establishment and start up of PRT's new Nevada nursery. Operating results in the fourth quarter of 2003 were also impacted by foreign exchange losses, relative to the fourth quarter of 2004.

Distributions declared in the first quarter period may include a "top-up" distribution declared from available distributable cash flow of the prior year. In 2003 this amount was $0.11 per unit, while in 2004 no such distribution was made.

Selected Annual Information

Figures are presented in $000's except number of Units and per Trust Unit amounts

	1998	1999	2000	2001	2002	2003	2004
Operating Statistics							
Revenues[1]	22,097	26,714	33,270	35,165	34,277	34,955	34,770
Revenue Growth Rate (Year over Year)	8.6%	20.9%	24.5%	5.7%	-2.5%	2.0%	-0.5%
Gross Margin percentage	49.8%	47.9%	43.2%	44.3%	42.4%	41.8%	41.3%
Operating Income[2]	6,207	7,090	8,060	8,905	7,628	6,802	7,488
% of revenue	28.1%	26.5%	24.2%	25.3%	22.3%	19.5%	21.5%
Net Earnings[1]	4,040	4,508	4,122	4,372	4,939	4,836	4,921
Basic and Fully Diluted Earnings per Unit[1]	$0.72	$0.80	$0.74	$0.78	$0.73	$0.67	$0.67
Distributable Cash Flow[2]	5,725	5,895	5,383	5,685	6,800	6,176	6,085
Distributable Cash Flow per Unit[2]	$1.02	$1.05	$0.96	$1.01	$1.01	$0.85	$0.82
Distributions Declared per Unit[1]	$1.02	$0.88	$1.05	$0.96	$1.01	$0.99	$0.88
Return on Average Equity	7.9%	9.0%	8.4%	9.2%	9.3%	8.2%	8.4%
Distributable Cash Flow Yield (on closing unit price)	11.3%	12.0%	11.0%	9.1%	10.1%	9.4%	8.7%
Capex Spending:							
Sustaining Capital (excludes reserves)	228	276	540	419	462	263	201
% of revenue	1.0%	1.0%	1.6%	1.2%	1.3%	0.8%	0.6%
Earnings enhancing	4,950	5,627	3,913	1,036	661	2,019	4,189
Subtotal	5,178	5,903	4,453	1,455	1,123	2,282	4,390
Seedling Containers	749	993	954	1,090	660	708	752
Total	5,927	6,896	5,407	2,545	1,783	2,990	5,142
Maintenance expenditures	1,636	1,865	2,082	2,489	2,475	2,506	2,089
Maintenance & Sustaining Capital expenditures as a percentage of revenue	8.4%	8.0%	7.9%	8.3%	8.6%	7.9%	6.6%
Financial Position							
Working Capital (excluding current portion of term debt)	2,529	1,867	2,628	2,943	4,737	3,684	4,622
Interest Bearing Debt Position							
Operating	2,882	4,231	7,096	6,993	4,615	6,687	6,788
Term (including current portion)	4,968	8,070	11,838	11,502	—	1,763	8,601
Total	7,850	12,301	18,934	18,495	4,615	8,450	15,389
Term Debt to Equity	0.098	0.161	0.247	0.246	0.000	0.031	0.146
Total Assets	61,062	66,402	70,999	69,934	68,709	68,054	77,801
Units Outstanding at End of Period	5,655,714	5,655,714	5,655,714	5,655,714	7,255,714	7,255,714	7,577,901
Unit Price Range High	$10.25	$9.90	$10.20	$11.45	$11.26	$10.30	$9.90
Low	$8.00	$8.25	$7.00	$8.50	$9.51	$8.60	$8.73
Close - December 31	$9.00	$8.75	$8.75	$11.10	$10.01	$9.00	$9.43
Volume	834,339	874,126	877,194	1,276,590	2,086,315	1,017,827	2,683,489

Note 1. This summarized financial data is presented in Canadian dollars, and has been prepared in accordance with Canadian generally accepted accounting principles. In 2002 the Fund adopted CICA Handbook section 3062 with regard to goodwill and intangibles. This change in policy was applied on a prospective basis.

Note 2. Distributable Cash Flow and Operating Income are terms which do not have standardized meaning under Canadian generally accepted accounting principles, and may not be comparable to similar measures provided by other reporting entities.

Between 2002 and 2004, PRT's operations were adversely affected by difficult conditions in the forest industry, which impacted seedling pricing and volumes. In addition, since 2000 energy prices have risen to historical highs, resulting in increased costs of production over this period. In 2003, the Fund incurred foreign exchange losses on its US dollar seedling contracts, which impacted earnings for the period by $456,000. In 2002, the fund retired its term debt from the proceeds of a $15 million equity offering, and in the process incurred a loss on cancellation of interest rate swaps of $472,000. Over the past three years, there have been no adjustments to earnings for discontinued operations or extraordinary items.

Subsequent to year end, PRT sold its former Aldergrove, BC nursery site for net proceeds of approximately $2,600,000, which was approximately $560,000 in excess of its carrying value. The proceeds will be applied to reduce bank debt currently outstanding.

In July 2004, PRT completed an acquisition of H.N. Hybrid Nurseries Ltd ("Hybrid"), a forest seedling nursery in the Lower Mainland region of British Columbia. This facility had a gross purchase price of $6,783,000 inclusive of $405,000 in net working capital, and was financed through a combination of equity placed with the vendor, term debt, and vendor financing.

Three months ended December 31, 2004 compared to three months ended December 31, 2003

Cash flow from operating activities was a deficit of $1,180,000 in the quarter, an improvement of $1,161,000 over 2003. The cash flow deficit in the fourth quarter is due to the timing of contract progress billings, many of which are tied to crop harvest. In 2004 billings were issued more promptly, which helped to reduce investments in non-cash working capital.

Distributions paid to unitholders were $113,000 higher in the fourth quarter of 2004, due to the greater number of units outstanding. Distributions per trust unit were unchanged at $0.22.

PRT incurred $309,000 in capital spending in the quarter, down from the $537,000 in 2003. This was primarily related to completion of sustaining capital projects, the Ontario nursery consolidation project, and an energy reduction project. Part of this capital spending has been temporarily financed from the Fund's operating line, which when combined with the normal seasonal operating cash flow deficit contributed to a $3.3 million increase in the operating loan. In 2003, capital spending had been financed with a term debt draw in the fourth quarter, which helped minimize the increase in the operating line for that period.

Financial Position

At December 31, 2004, working capital was $3,756,000 compared to $3,561,000 at the end of 2003, an increase of $195,000. This was primarily attributable to inclusion of the Aldergrove nursery held for sale as a current asset, partially offset by the increased portion of term debt due in the next year and working capital used to maintain the current year's distributions. The Fund's working capital position remains adequate relative to its operating needs.

Property, plant and equipment was $33,962,000 at December 31, 2004, increased from the prior year due to the acquisition of Hybrid and the Oregon nursery facility. As noted above the Aldergrove nursery was sold in February 2005 and so the carrying value of this asset was removed from property, plant and equipment at year end.

In conjunction with the Hybrid nursery acquisition, the company recorded intangibles of $220,000 related to the value of customer lists and goodwill of $1,727,000. The customer lists intangible is being amortized against income over 5 years, whereas goodwill is subject to periodic impairment testing and will be written down if impairment is indicated.

Unitholders' Equity at December 31, 2004 was $59,052,000, an increase of $1,449,000 since the end of 2003. This increase was attributable to $3,000,000 in new units issued to the vendor in the Hybrid transaction, plus $44,000 in equity issued under the provisions of PRT's Employee Share Purchase Plan, offset by declines in equity due to distributions declared exceeding net earnings for the period. Distributable cash flow from the Fund is typically higher than reported earnings, since depreciation charges generally exceed the expenditures required for asset maintenance and replacement.

The Fund has one class of voting equity securities, of which 7,577,901 units are outstanding. Up to 560,572 units have been reserved for issuance under its Unit Option Plan, however to date no options have been granted. There are no other securities currently outstanding which may be converted into units of the Fund.

Financial Instruments

PRT uses interest rate swap contracts to fix interest rates on its variable rate long-term debt. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities.

Swap terms are matched to the maturity of the underlying loan obligation. However, the Company could incur a gain or loss on the contract in the event the swap was cancelled before the scheduled maturity date. PRT periodically obtains mark-to-market valuations on its swap contracts.
At December 31, 2004 the fair value of the Company's outstanding interest rate swaps approximated their carrying amount based on reference to current market interest rates.

Accounting Policy Changes

Effective January 1, 2004, the Fund adopted the new CICA accounting standards on hedging relationships and asset retirement obligations. In addition, the Fund adopted the new recommendations of CICA Handbook Section 3063 – Impairment of Long-lived Assets effective January 1, 2004. Section 3063 establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets by profit-oriented enterprises. The new recommendations require the Fund to test long-lived assets for impairment in value whenever events or changes in circumstances indicate their carrying value may not be recoverable. An impairment loss is recognized, if at the date it is tested for impairment the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and/or eventual disposition. If an impairment loss exists, the loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Adoption of these standards had no effect on the Fund's consolidated financial statements.

Critical Accounting Estimates

PRT accounts for revenue under seedling contracts based on percentage completion contract accounting. Percentage completion is determined as the ratio of direct growing expenses incurred to total expected direct growing costs over the crop cycle. While most crops are completed by the end of the Fund's fiscal year, during interim periods management must make estimates of total expected direct growing costs for the fiscal year. In addition, total annual revenue under growing contracts is estimated based on expected annual crop yields. To increase the accuracy of these estimates, PRT has internal policies and procedures which require periodic revisions to cost forecasts and crop yield forecasts whenever a material variance is known or expected. The potential for errors in estimation is typically limited to interim periods, as final crop yields and costs are generally known by the end of the fiscal year.

The application of CICA handbook section 3062, Goodwill and Other Intangible Assets requires that the excess of the purchase amount of acquisitions over the value of the identifiable net assets should not be amortized to earnings, but periodically tested for impairment. PRT uses certain operating and financial assumptions to conduct its impairment test, including current market information when available, or other generally accepted valuation methods, such as discounted cash flows. Differences in assumptions regarding discount rates and projection of future operation

Reliability, service and value . . .

Going with high-tech trees

PRT maintains an important strategic alliance with Vancouver-based CellFor Inc., a leading supplier of high-technology seeds to the global forest industry.

CellFor's testing and selection programs have delivered improvements in forest yield much greater than possible with traditional methods. Part of the production takes place at our Armstrong nursery, which must adhere to strict quality-control procedures.

Increasing demand for improved seeds and seedlings has created a growing market for CellFor's products, primarily in the southeastern United States. That, in turn, has made CellFor's fast-growing seedlings, a rapidly "growing" segment of our business.

Reliability, service and value . . .

Lowering the curtain on heat

In late November 2004, Carl Mayer, Cordelia Gault and 12 other people at our Beaverlodge, Alberta, nursery, raised the curtain on a new energy-saving system. Truth be told, they actually lowered a 100,000-square-foot thermal curtain.

This new thermal curtain is used 24 hours a day in the early stages of germination when greenhouse temperatures are warmest and outside temperatures coldest. Once the seedlings have germinated and are actively photosynthesizing, the curtain is automatically but gradually opened at dawn before again closing at dusk. The graded opening ensures that the cold air from above mixes slowly with the warm air at crop level.

The thermal curtain system is suspended using more than 15,000 nylon hooks that slide on over 35,000 feet of stainless steel wire. More than 8,000 feet of aircraft cable is used to open and close the thermal curtain, which covers just over 79,000 square feet of greenhouse.

The payback? We expect to halve our energy consumption.

cash flows could have a significant impact on the determination of an impairment amount, if any, reported in the statement of earnings. These assumptions are tested against relevant independent information for consistency and reliability. Changes in estimates or assumptions could affect the determination of goodwill impairment and the amounts reported for goodwill impairment in the statement of earnings and goodwill in the balance sheet.

Risks and Risk Management

The Company's business involves the cultivation and growing of forest seedlings, an agricultural crop. As such, the business of PRT is subject to risks inherent in an agricultural business. To manage these risks, PRT grows much of its crop in climate controlled greenhouses in diverse locations, and carefully monitors the growing conditions of its nurseries with trained growing personnel. In addition, the Company has formalized crop risk management plans, and maintains insurance against certain types of physical crop damage.

Some of PRT's costs are subject to variations caused by movements in commodity prices. For example, energy costs have shown increased volatility in recent years, which has and may continue to adversely impact PRT's operating margins. The Company typically prices its products under annual sales contracts, and so may not be able to revise its sales prices in the short term to offset commodity price volatility. To reduce this risk, PRT purchases energy from a variety of regulated and non-regulated sources, which is expected to partially offset the effect of short-term changes in commodity prices. The Company enters into forward purchase contracts for future energy requirements where management considers it advantageous to do so.

The Fund enters into seedling growing contracts in both Canadian and US dollars. Exchange rates have shown increased volatility in recent periods, which has and may continue to adversely impact PRT's cost structure. As stated above, the Company typically prices its products under annual sales contracts, and so may not be able to revise its sales prices in the short term to offset exchange rate volatility. To reduce this risk, PRT has established US based production facilities, and is financing the purchase of those facilities with US dollar denominated debt, in order to provide some offsetting exchange rate exposure against the US dollar revenue stream.

The business of PRT is highly dependent on the forest industry in Canada. While the Company is not materially dependent on any one customer, regional markets may

be impacted by changes in global markets and government regulations and by more consolidated buying decisions by larger customers. In recent years, management has taken steps to diversify PRT's operations outside of British Columbia, such that at the present time, more than half of the Company's revenues are derived from outside the province.

The Company intends to use term debt financing to fund earnings-enhancing capital expenditures in the current low interest rate environment. Interest rate risk is managed by fixing term debt rates for varying terms using interest rate swaps. Working capital loans are short term in nature and represent a relatively small portion of the cost of total borrowings. Accordingly, management does not hedge interest rate risk on this debt.

The production of forest seedlings has limited impact on the environment. Seedlings are grown in controlled greenhouses or in defined open compounds. To manage any potential environmental risks, PRT has established an Environmental Management System (EMS). The EMS consists of an environmental policy, codes of conduct, periodic site audits, employee training and awareness, environmental monitoring, emergency prevention and response procedures, and periodic reporting.

Outlook

While the operating environment in the forest seedling nursery industry over the past few years has been very challenging, we are more optimistic about the year ahead. The results of our repositioning strategies are beginning to show, with a more customer focused organization and more streamlined production and administrative teams. Although the long outstanding softwood lumber trade dispute is still unresolved, the rate of logging has remained high. Forest company profitability has improved, and silviculture programs are being addressed. In addition, a significant reforestation backlog exists in Western Canada due to forest fire and pest damage. We expect that these factors will help keep demand firm over the next few years.

During the current industry cycle we responded to the issues that pressured PRT's operating margins, and have implemented strategies to manage risks and reduce costs over the long term. These included the Cochrane nursery consolidation, the Oregon nursery purchase and Reid Collins closure, a comprehensive internal reorganization, investments to improve production efficiencies, energy buying and conservation strategies, among others.

We have also remained focused on our growth strategies. These include industry consolidation, and we regularly review potentially accretive acquisition opportunities. The acquisition of H.N. Hybrid Nurseries Ltd. in 2004 is an example, and is expected to be accretive in 2005 and beyond. We also continue to look for ways to lever off our reliability and technology advantages in new markets, and are pleased with the market share gains we are achieving in the Pacific Northwest and elsewhere.

Our 2005 marketing results to date are very encouraging, and we expect that inclusive of the Hybrid acquisition we will be in position to grow over 1.6 million seedling blocks in 2005, representing over 160 million trees. This positions us well for resumed revenue growth and improved results in 2005.

As always, we are continually looking to the long-term for opportunities to further improve and expand our operations, and to leverage our knowledge base and infrastructure, while maintaining a market leading position in our industry.

February 25, 2005

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of PRT Forest Regeneration Income Fund ("the Fund") and all the information in this report pertaining to the Fund have been prepared by PRT Management Inc. ("PRT Management") and management of Pacific Regeneration Technologies Inc. ("PRT") and have been approved by the Board of Trustees of the Fund.

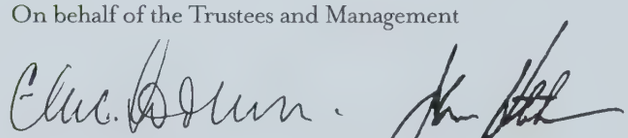
The consolidated financial statements have been prepared by PRT Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. PRT Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. PRT Management has prepared the financial information of the Fund presented elsewhere in the annual report and has ensured that it is consistent with the consolidated financial statements of the Fund.

PRT Management maintains, on behalf of the Fund, systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded. The Trustees of the Fund are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements of the Fund. The Trustees carry out this responsibility through the Fund's Audit Committee.

The Audit Committee is comprised of the three Trustees, all of whom are independent and unrelated to the Fund. The Committee meets periodically with PRT Management and management of PRT as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee also considers, for approval by the Unitholders, the engagement or re-appointment of the external auditors.

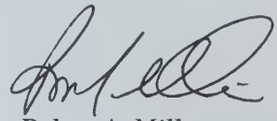
The consolidated financial statements of the Fund have been audited by PricewaterhouseCoopers, the external auditors, in accordance with generally accepted auditing standards on behalf of the Unitholders. PricewaterhouseCoopers has full and free access to the Audit Committee.

On behalf of the Trustees and Management



Colin A.C. Dobell
Trustee and Chairman

John Kitchen
President & CEO
Pacific Regeneration Technologies Inc.



Robert A. Miller
Vice President Finance
& Administration & CFO
Pacific Regeneration Technologies Inc.

Auditors' Report

For the years ended December 31, 2004 and 2003

To the Unitholders of

PRT Forest Regeneration Income Fund

We have audited the consolidated balance sheets of **PRT Forest Regeneration Income Fund** (the "Fund") as at December 31, 2004 and 2003 and the consolidated statements of earnings and cumulative earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, Canada

February •, 2005

Consolidated Balance Sheets

As at December 31, 2004 and 2003

	2004	2003
Assets		
Current assets		
Cash	$ 599,902	$ 539,147
Accounts receivable	8,734,992	8,299,240
Inventories	1,221,744	1,050,869
Prepaid expenses and term deposit	499,135	89,788
Property held for sale (note 5)	1,999,320	—
Unbilled revenue	1,695,452	2,338,986
	14,750,545	12,318,030
Investment (note 6)	654,570	713,917
Property, plant and equipment (note 7)	33,961,914	28,534,858
Intangibles (note 4(b))	220,000	—
Goodwill (note 4(b))	28,213,816	26,487,158
	$ 77,800,845	$ 68,053,963
Liabilities		
Current Liabilities		
Operating line (note 8)	$ 6,787,912	$ 6,686,753
Accounts payable and accrued liabilities	2,106,720	1,408,530
Distribution payable to Unitholders (note 11)	596,305	539,078
Vendor financing (note 4(b))	637,795	—
Current portion of long-term debt (note 9)	865,328	122,815
	10,994,060	8,757,176
Long-term debt (note 9)	7,736,039	1,640,331
Future income taxes (note 12)	18,550	53,080
	18,748,649	10,450,587
Unitholders' Equity		
Capital contributions (note 10)	71,058,379	68,014,543
Cumulative net earnings	33,156,108	28,234,729
Cumulative distributions declared (note 11)	(45,162,291)	(38,645,896)
	59,052,196	57,603,376
	$ 77,800,845	$ 68,053,963

Approved by the Trustees

Colin A.C. Dobell
Trustee

Allan D. Laird
Trustee

See accompanying notes to these financial statements.

Consolidated Statements of Earnings and Cumulative Earnings

For the years ended December 31, 2004 and 2003

	2004	2003
Revenue	$ 34,769,654	$ 34,954,832
Expenses		
Costs of production	20,397,424	20,359,874
Selling, general and administration (note 15(b))	7,259,611	7,337,145
Foreign exchange (gain) loss	(375,279)	455,750
	27,281,756	28,152,769
Earnings before the following	7,487,898	6,802,063
Interest expense	(685,994)	(298,643)
Depreciation	(2,620,351)	(2,473,633)
Site consolidation charges (note 5)	(453,234)	(34,697)
Equity in loss of investee	(59,347)	(28,083)
Gain (loss) on sale of property, plant and equipment	311	(10,202)
Earnings before income taxes	3,669,283	3,956,805
Recovery of income taxes (note 12)	1,252,096	879,520
Net earnings for the year	4,921,379	4,836,325
Cumulative earnings – Beginning of year	28,234,729	23,398,404
Cumulative earnings – End of year	$ 33,156,108	$ 28,234,729
Basic and diluted earnings per Trust Unit	$ 0.67	$ 0.67
Weighted average number of Trust Units outstanding	$ 7,388,485	$ 7,255,714

See accompanying notes to these financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Net earnings for the year	$ 4,921,379	$ 4,836,325
Items not affecting cash		
Depreciation	3,501,607	3,357,582
Recovery of future income taxes	(1,276,225)	(932,279)
(Gain) loss on sale of property, plant and equipment	(311)	10,202
Equity in loss of investee	59,347	28,083
Unrealized gain on foreign exchange	(279,206)	—
	6,926,591	7,299,913
Net change in non-cash working capital items	834,524	(1,018,875)
	7,761,115	6,281,038
Cash flows from financing activities		
Distributions paid to Unitholders	(6,502,336)	(8,215,247)
Proceeds of long-term debt	7,012,980	1,775,100
Repayment of long-term debt	(212,385)	(11,954)
Increase in operating line	101,159	2,071,930
Issuance of Trust Units	43,836	—
	443,254	(4,380,171)
Cash flows from investing activities		
Acquisition (note 4(b))	(3,009,754)	—
Purchase of property, plant and equipment		
Seedling containers	(751,625)	(708,159)
Earnings-enhancing	(4,188,866)	(2,019,010)
Sustaining	(201,497)	(262,719)
Proceeds on sale of property, plant and equipment	8,128	23,253
	(8,143,614)	(2,966,635)
Increase (decrease) in cash	60,755	(1,065,768)
Cash — Beginning of year	539,147	1,604,915
Cash — End of year	$ 599,902	$ 539,147

Supplemental cash flow information (note 13)

See accompanying notes to these financial statements.

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

1. Organization and nature of operations

PRT Forest Regeneration Income Fund (the "Fund") is an open-ended single purpose trust, created under the laws of British Columbia by a Declaration of Trust dated May 14, 1997. The Fund is the largest producer of container-grown forest seedlings in North America. The Fund grows its seedlings at nurseries in British Columbia, Alberta, Saskatchewan, Ontario, Oregon and Nevada.

2. Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiary Pacific Regeneration Technologies Inc. ("PRT") and PRT's wholly owned subsidiary companies. Inter-group transactions are eliminated on consolidation.

Revenue recognition

Revenue from contracts is recognized as a percentage of the contract price, based on the percentage of total direct expenses incurred to total budgeted direct costs. Total revenue is recognized when seedling crops reach substantial completion, which is defined as meeting all contracted growth specifications. Any excess of revenues recorded using this percentage of completion method over amounts billed is recorded as unbilled revenue.

Revenue from non-contracted goods and services is recognized when the goods are delivered or the service has been substantially rendered.

Inventories

Inventories of supplies are recorded at the lower of cost and replacement cost.

Future income taxes

The Fund accounts for income taxes using the liability method of tax allocation. Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in income in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

Investments

The Fund accounts for investments in which it exercises significant influence using the equity method. Under the equity method, the initial investment is recorded at cost and the Fund's pro rata share of the investments' earnings or losses is included in its results of operations.

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method at rates which reflect the estimated useful lives of the assets as follows:

Buildings	40 years
Greenhouses	25 years
Equipment	3 – 15 years
Seedling containers	5 years

Depreciation related to the seedling containers is included in costs of production in the consolidated statements of earnings and cumulative earnings.

Goodwill
Goodwill is recorded at cost and is not amortized. The Fund tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value will be charged to income in the period in which the impairment is determined.

Intangibles
Intangibles represent a customer list recorded on acquisition of a subsidiary. The intangibles are amortized over their estimated useful life of five years.

Foreign exchange
Foreign currency transactions are translated into Canadian dollars at the exchange rates in effect at the dates of the transactions. Account balances denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates. Exchange gains and losses arising from the translation or settlement of foreign currency denominated monetary items are included in the determination of net earnings.

The accounts of the Fund's United States operations are considered to be integrated and are translated into Canadian dollars using the temporal method. Exchange gains and losses arising from the translation of the Fund's foreign operations are included in the determination of net earnings.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from those estimates.

The most significant estimates are related to asset retirement obligations, asset impairment and economic life of depreciable long-lived assets.

3. Changes in accounting policies

Asset retirement obligations
Effective January 1, 2004, PRT adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) for asset retirement obligations, which require that such obligations be measured at fair value. PRT has certain leased nursery sites that require that the sites be returned to its original state at the request of the lessor. As a result of adopting these new recommendations, management assessed that the asset retirement obligation is $nil.

Impairment of long-lived assets
Effective January 1, 2004, PRT adopted the new recommendations of the CICA for impairment in long-lived assets, which provide guidance for the recognition, measurement and disclosure of impairment in long-lived assets. As a result of adopting these new recommendations, management assessed that the impairment in long-lived assets is $nil.

Hedging relationships
On January 1, 2004, PRT adopted the amendments made to the Canadian Institute of Chartered Accountants' Accounting Guideline 13 (AcG - 13) "Hedging Relationships". PRT uses interest rate swaps to manage interest rate risk. Derivative instruments that do not qualify as a hedge under AcG - 13, or are not designated as a hedge, are recorded in the consolidated balance sheet as either an asset or liability with changes in fair value recognized in net earnings. The company elected not to designate any of its risk management activities in place at December 31, 2004 as accounting hedges under AcG - 13 and, accordingly, accounted for all these non-hedging derivatives using the mark-to-market accounting method. As a result of adopting these new recommendations, PRT has determined that there is no impact to the financial statements.

4. Acquisitions

a) Asset purchase – On January 8, 2004, PRT, through a wholly-owned subsidiary, purchased the assets of a nursery site near Portland, Oregon for US$2,300,000. The purchase was financed through the use of PRT's term debt facility and vendor financing in the amount of US$300,000.

b) Share purchase – On July 30, 2004, PRT acquired 100% of the shares of H.N. Hybrid Nurseries Ltd. The net assets acquired at fair market value are as follows:

Cash	$	135,251
Current assets		661,367
Capital assets		5,433,813
Intangibles		220,000
Goodwill		1,726,657
Current liabilities		(152,593)
Future income taxes		(1,241,695)
Total consideration		6,782,800
Cash consideration paid		3,145,005
Trust units issued		3,000,000
Cash consideration to be paid in 2005		637,795
		6,782,800

This acquisition was accounted for using the purchase method, and accordingly, the consolidated financial statements include the results of operations from the date of acquisition.

The acquisition was financed through a combination of term debt, cash, vendor financing and issuance of trust units.

The number of trust units issued was 317,595 at a value of $9.45 each, being the weighted average trading price of units for the ten trading days preceding the close of the transaction.

Intangibles represent a customer list with an estimated life of 5 years.

5. Restructuring activities

In 2004, PRT closed its Cochrane, Ontario nursery site and relocated this capacity to existing sites in Kirkland Lake and Dryden, Ontario. In addition, significant capacity of PRT's Beaverlodge, Alberta, nursery was moved to the Armstrong, B.C. location. The consolidation is substantially completed as at December 31, 2004. The restructuring at the Kirkland Lake location is expected to be complete by mid-2005.

In the first quarter of 2004, PRT announced that it would close its Aldergrove, BC nursery site and relocate the majority of this capacity to a newly acquired site near Portland, Oregon and the remaining capacity to other B.C. based facilities. The closure was completed in 2004.

The Cochrane nursery site has been listed for sale.

The company has entered into an agreement to sell the Aldergrove site with an expected closing date of February 28, 2005. Net sale proceeds are expected to be $2.6 million, of which $500,000 was received as deposit in 2004. The company expects to record a gain on sale of approximately $560,000 in 2005.

The Fund anticipates incurring expenditures related to the site consolidations, including certain one-time costs, as follows:

		Total expected expenditures		Amounts incurred in the year		Amounted incurred to date
Property, plant and equipment						
Site preparation and greenhouse construction at Kirkland Lake and Dryden	$	885,240	$	457,020	$	795,240
Site consolidation charges						
Dismantling and relocation of equipment and facilities		487,931		453,234		487,931
Depreciation						
Write-down of deferred costs and capital assets related to Cochrane site		210,000		130,000		210,000
		1,583,171		1,040,254		1,493,171

The above table excludes capital costs associated with the purchase and development of the Fund's new nursery near Portland, Oregon (note 4 (a)) but includes the cost of relocating equipment and other assets to the site.

Costs to dismantle and ship equipment are recognized when the activities take place and the costs are incurred, and are included in the Statement of Earnings and Cumulative Earnings as Site Consolidation Charges.

6. Investment

On January 2, 2003, PRT acquired a non-controlling interest in a privately held company for cash consideration of $742,000. The investment is accounted for by the equity method. The excess of the purchase price of the investment over the underlying book value at the date of acquisition, totalling $625,000, has been allocated to intangible assets, which are being amortized over their estimated useful lives. The company is a supplier of software solutions for seedling supply management by forest companies.

7. Property, plant and equipment

	2004		
	Cost	Accumulated depreciation	Net
Land	$ 3,372,591	$ —	$ 3,372,591
Buildings	6,392,788	816,215	5,576,573
Greenhouses	21,511,225	5,563,874	15,947,351
Equipment	14,853,936	7,564,343	7,289,593
Seedling containers	6,808,344	5,032,538	1,775,806
	52,938,884	18,976,970	33,961,914

	2003		
	Cost	Accumulated depreciation	Net
Land	$ 3,099,769	$ —	$ 3,099,769
Buildings	4,779,149	686,224	4,092,925
Greenhouses	18,241,195	4,795,132	13,446,063
Equipment	12,930,609	6,692,379	6,238,230
Seedling containers	6,064,169	4,406,298	1,657,871
	45,114,891	16,580,033	28,534,858

The following summarizes the amounts charged to earnings in respect of depreciation:

	2004	2003
Seedling container depreciation included in costs of production	$ 881,256	$ 883,949
Other depreciation	2,620,351	2,473,633
Total depreciation	3,501,607	3,357,582

8. Operating line

PRT has a demand revolving operating facility of up to $7.7 million or US$4.75 million to fund the company's working capital and general corporate requirements, and to provide temporary financing for earnings-enhancing capital expenditures prior to conversion to term debt (note 9). The amount of operating line available is dependent upon meeting certain margin requirements. As at December 31, 2004, the full amount of the facility was available and the company had drawn $6,787,912 (2003 – $3,686,753) of cash advances from the operating facility bearing interest at prime plus 1/4% and $nil (2003 – $3,000,000) of short-term bankers' acceptances. A first fixed and floating charge over PRT's assets is provided as security.

9. Long-term debt

PRT has a term debt facility available in the amount of $20 million (2003 - $20 million), or the equivalent in U.S. dollars, to fund earnings-enhancing capital expenditures and acquisitions. All loans are based on a 10 year amortization period, repayable within five years of initial payment. A wholly owned subsidiary of PRT has a term debt facility available in the amount of US$365,000 which is amortized on a straight-line basis over 10 years.

As at December 31, the following amounts have been drawn under the facilities:

	2004	2003
Term loan, bearing interest at 4.27%, maturing on September 30, 2008, with quarterly payments calculated on a straight-line basis over 10 years	$ 1,425,000	$ 1,500,000
Term loan, bearing interest at 4.69%, maturing on September 30, 2009, with quarterly payments calculated on a straight-line basis over 10 years	585,000	—
Term loan, bearing interest at the lender's U.S. prime plus 1.25%, maturing on December 31, 2013 (US$164,375), with quarterly payments calculated on a straight-line basis over 10 years	197,250	263,146
Term loan, bearing interest at the lender's U.S. base rate plus .50%, maturing March 31, 2010 (US$2,758,000), with blended monthly principal and interest payments based on a 10 year amortization period	3,309,600	—
Term loan, bearing interest at the lender's prime rate plus .50%, maturing September 30, 2009, with quarterly payments calculated on a straight-line basis over 10 years	2,724,517	—
Payable to vendors (US$300,000) (note 4(a))	360,000	—
	8,601,367	1,763,146
Less: Current portion	865,328	122,815
	7,736,039	1,640,331
Interest paid on long-term debt	395,512	17,570

PRT is subject to interest rate risk on floating rate payments under its long-term debt. PRT manages this exposure by entering into interest rate swap agreements. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities.

As at December 31, 2004, PRT had entered into two interest rate swap agreements for 5 years to fix the interest rates, on its Canadian dollar term loans. The rates noted in the above table represent the fixed interest rates, including stamping fees, resulting from the swap agreements.

A first fixed and floating charge over PRT's assets is provided as security for the facilities.

The principal repayments required on the long-term debt are as follows:

Year ending December 31	
2005	$ 865,328
2006	920,377
2007	767,823
2008	845,718
2009	3,256,635
Thereafter	1,945,486
	8,601,367

10. Unitholders' equity

The Declaration of Trust provides that an unlimited number of Trust Units may be created and issued. Each Trust Unit represents an equal undivided beneficial interest in the assets of the Fund. All Trust Units of the Fund are of the same class with equal rights and privileges. Each Trust Unit is transferable, and entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Trust Unit held. Unitholders are not subject to future calls or assessments.

Trust Units are redeemable at the holder's option at amounts related to market prices at the time, subject to a maximum of $75,000 in cash redemptions by the Fund in any particular month. This limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of this amount, assuming no waiving of the limitation, shall be paid by way of a distribution in specie of a pro rata number of PRT common shares and Notes.

Units outstanding as at December 31 are:

	2004		2003	
	Number of units	**Amount**	**Number of units**	**Amount**
Balance – Beginning of year	7,255,714	68,014,543	7,255,714	68,014,543
Units issued for acquisition (note 4(b))	317,595	3,000,000	—	—
Units issued under ESOP program	4,592	43,836	—	—
Balance – End of year	7,577,901	71,058,379	7,255,714	68,014,543

The Fund has a Unit option plan whereby the Trustees of the Fund may from time to time grant options to purchase Units to eligible officers, employees and consultants of the Fund or any subsidiary and to directors of any subsidiary. The aggregate number of Units reserved under the plan is 560,572. The maximum term of any option is 10 years. The exercise price of an option cannot be less than the average of the Unit price at the close of business on the five trading days preceding the grant date.

As at December 31, 2004, no options had been granted (2003 - nil).

During the year ended December 31, 2003, PRT established an Employee Stock Ownership Plan ("ESOP") whereby eligible directors and employees of PRT, PRT Management Inc. ("PRT Management"), or any subsidiary of PRT can purchase market traded Units of the Fund through payroll deduction. The plan was amended in 2004 to permit treasury issuances on the same terms. Under the terms of the ESOP, eligible employees can contribute between 1% and 10% of their earnings to the plan and PRT or PRT Management will contribute 15% toward the purchase price of Units and pay all transaction fees on Unit purchases made under the plan.

11. Distributions to Unitholders

The amount of cash to be distributed annually to Unitholders is determined with reference to distributable cash, which is calculated as cash flow from operating activities before net change in non-cash working capital items, adjusted for seedling container depreciation, sustaining capital expenditures, repayment of long-term debt, and any other reserves or allowances considered appropriate by the Board of Directors of PRT and the Trustees of the Fund. Distributable cash is not a defined term under Canadian generally accepted accounting principles and therefore may not be comparable to similar measures provided by other reporting entities.

Distributable cash was as follows:

		2004	2003
Cash flow from operating activities before net change in non-cash working capital items	$	6,926,591	7,299,913
Adjustments			
Seedling container depreciation		(881,256)	(883,949)
Sustaining capital expenditures		(201,497)	(262,719)
Repayment of long-term debt		(212,385)	(11,954)
Site consolidation charges		453,234	34,697
Distributable cash		6,084,687	6,175,988

The Fund's policy is to make a cash distribution each month equal to interest charged to PRT by the Fund on the $57.7 million (2003 - $54.7 million) of inter-group 12% unsecured subordinated notes (the "Notes") plus interest charged on any other inter-group indebtedness less estimated Fund administration costs. In addition to the monthly distributions, an additional distribution (the "Thirteenth Distribution") may be made on or before March 31 of the following year based on the actual distributable cash for the year, less reserves, if any, considered appropriate by the Board of Directors of PRT and the Trustees of the Fund.

During the year ended December 31, 2004, the Fund declared distributions to the Unitholders of $6,516,395 or $0.882 per Unit (2003 -$7,149,477 or $0.985 per Unit) based on the number of Units outstanding on the record date. Distributions

are declared on the last business day of each month and paid the following month. The distribution amounts declared by month were:

	2004		2003	
	Amount	**Per Unit**	**Amount**	**Per Unit**
February – Fifth Distribution on account of prior year	$ —	$ —	$ 784,062	$ 0.108
January	529,667	0.073	529,667	0.073
February	529,667	0.073	529,667	0.073
March	529,667	0.073	529,667	0.073
April	529,667	0.073	529,667	0.073
May	529,667	0.073	529,667	0.073
June	529,712	0.073	529,667	0.073
July	529,757	0.073	529,667	0.073
August	553,007	0.073	529,667	0.073
September	553,050	0.073	529,667	0.073
October	553,092	0.073	529,667	0.073
November	553,137	0.073	529,667	0.073
December	596,305	0.079	539,078	0.074
	6,516,395	0.882	7,149,477	0.985

The costs of issuing Trust Units are deductible for income tax purposes on a straight-line basis over a five-year period. The Fund incurred issue costs in 1997 of $3,002,597 and incurred additional issue costs in 2002 of $1,540,000. The Fund can designate these deductions as a non-taxable distribution of amounts to Unitholders. The distributions declared have been allocated as follows for income tax purposes:

	2004	2003
Taxable - interest	$ 6,208,411	$ 6,057,454
Taxable - dividends	—	784,063
Non-taxable	307,984	307,960
Total distribution	6,516,395	7,149,477
Per Unit	0.882	0.985

As at December 31, 2004, $616,062 (2003 - $924,046) of issue costs were available for future designation as non-taxable distributions.

12. Income taxes

The Fund is not taxable on any income that is distributed to Unitholders. PRT is taxable on its income at Canadian statutory tax rates.

a) The consolidated income tax recovery (provision) comprises the following:

	2004	2003
Current income taxes	$ (24,129)	$ (52,759)
Future income taxes	1,276,225	932,279
	1,252,096	879,520

b) The recovery of income taxes shown in the consolidated statements of earnings and accumulated earnings and Unitholders' equity differs from the amounts obtained by applying statutory tax rates to the earnings before income taxes for the following reasons:

	2004	2003
Income tax expense computed at statutory rates	$ (1,316,178)	$ (1,488,575)
Income tax benefit of fund distributions deductible for tax purposes	2,408,655	2,469,950
Reduction in income tax rate	267,404	41,469
Large corporations tax	(24,129)	(52,759)
Other	(83,656)	(90,565)
Recovery of income taxes	1,252,096	879,520

c) The net future income tax liability comprises the following differences between book value and tax value at current tax rates:

	2004	2003
Future income tax assets (liabilities)		
Property, plant and equipment	121,921	6,031
Deductible expenses for tax purposes	(220,107)	(157,880)
Tax loss carry-forwards	79,636	98,769
Future income tax liability - net	(18,550)	(53,080)

d) Expiry of non-capital loss carry-forwards in subsidiary companies is as follows:

Year ending December 31	
2006	93,380
2007	22,639
2008	105,992
2009	—
2010	—
	222,011

13. Supplemental cash flow information

	2004	2003
Interest paid	680,271	322,148
Income taxes paid	24,129	52,759
Non-cash financing		
Issuance of units	3,000,000	—
Vender financing	997,795	—
Non-cash investing		
Acquisition	(3,637,795)	—
Purchase of capital assets	(360,000)	—

14. Segmented information – geographic areas

The Fund has one operating segment, being the production of forest seedlings.
The following tables provide geographic revenue, property, plant and equipment, and goodwill information:

			2004
	Revenue	**Property, plant and equipment**	**Goodwill**
Canada	30,764,292	29,349,689	28,213,816
United States	4,005,362	4,612,225	—
	34,769,654	33,961,914	28,213,816

			2003
	Revenue	**Property, plant and equipment**	**Goodwill**
Canada	31,555,988	27,716,670	26,487,158
United States	3,398,844	818,188	—
	34,954,832	28,534,858	26,487,158

15. Administration and Management Agreements

a) Administration Agreement

The Fund has entered into an Administration Agreement with PRT Management, a company owned by certain employees and former owners of PRT. According to the agreement, PRT Management will provide or arrange for the provision of administration services to the Fund. PRT Management is entitled to reimbursement of out-of-pocket expenses for providing these services but will not earn a fee. The agreement has a 20-year term and can be terminated by the Fund in certain circumstances.

b) Management Agreement

PRT has entered into a Management Agreement with PRT Management. According to the agreement, PRT Management will provide management and administration services and strategic advice to PRT and provide individuals to serve

in executive positions. The initial term of the agreement is 20 years, and it is renewable thereafter for successive five-year terms unless PRT gives notice of non-renewal at least 12 months before the end of the relevant term. The Management Agreement may be terminated by PRT or PRT Management in certain circumstances. In 2004, PRT Management earned a fee of $1,153,307 (2003 - $1,214,389) plus reimbursement of $nil (2003 - $nil) for certain out-of-pocket expenses. The fee is periodically set at the level necessary to achieve reimbursement, without profit, of PRT Management's internal costs and expenses of providing these services, including salaries and wages. In addition, as an incentive to PRT Management to enhance cash distributions to Unitholders of the Fund, PRT Management is entitled to earn incentive fees which will be payable annually when the per Unit cash distributions to Unitholders generated from the operations of PRT exceed certain defined levels.

No incentive fees were earned by PRT Management in 2004 and 2003.

16. Commitments

PRT has operating lease commitments for certain nursery growing facilities. Future minimum payments are as follows:

Year ending December 31		
2005	$	164,830
2006		30,790
2007		30,790
2008		30,790
2009		30,790
Thereafter		228,540
		516,530

17. Related party balances and transactions

PRT provides seedling cultivation services at market rates to a company partially owned by certain shareholders of PRT Management. During the year ended December 31, 2004, PRT charged $792,190 (2003 - $233,643) for providing these services. As at December 31, 2004, included in accounts receivable is $983 (2003 - $68,958) due from the related party.

Also see notes 10 and 15.

18. Financial instruments

Fair value

The fair values of cash, accounts receivable, operating line, accounts payable and accrued liabilities and distribution payable to Unitholders approximate their carrying values given the short-term maturity of these instruments.

The fair value of the long-term debt approximates its carrying amount based on reference to current market prices for debt with similar terms and risks.

The fair value of the interest rate swap approximates its carrying amount based on reference to current market interest rates.

Credit risk

A substantial portion of PRT's accounts receivable is with customers in the forestry industry and is subject to normal industry credit risks.

19. Significant customers

No customers account for more than 10% of the Fund's revenues. In 2003, one customer represented 11% of the Funds revenues.

20. Comparative figures

Certain of the comparative figures have been restated to conform with the presentation adopted in the current year.

PRT
Altogether a better approach

Company Information

Directors

Colin A.C. Dobell, Chairman
President, C. Dobell Inc.
Financial Consulting Firm

John Kitchen
President and CEO

Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

George C. Stevens, Q.C.
Associate Counsel,
Lang Michener LLP, Barristers & Solicitors
Law Firm

Christopher J. Worthy
President, Worthy Capital Ltd.
Private Investment Management Firm

Officers

John Kitchen
President and CEO

Robert A. Miller, CA
Vice President Finance and Administration,
CFO and Secretary

Herb Markgraf
Vice President, Business Development

Robert Maxwell
Vice President, Production

Fund Information

Trustees

Colin A.C. Dobell, Chairman
President, C. Dobell Inc.
Financial Consulting Firm

Allan D. Laird
President, A.D. Laird Consulting Ltd.
Management Consulting Firm

George C. Stevens, Q.C.
Associate Counsel
Lang Michener LLP, Barristers & Solictors
Law Firm

Annual Meeting

The annual meeting of Unitholders will
be held at 10:00 a.m., May 17, 2005
at the offices of Davis & Company, 2800 Park Place,
666 Burrard Street, Vancouver, British Columbia

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Auditors

PricewaterhouseCoopersLLP

Registrar and Transfer Agent

Computershare Investor Services
Vancouver, Calgary, Toronto and Montreal

Stock Exchange Listing

Toronto Stock Exchange

Trading Symbol

PRT.UN

Web Site

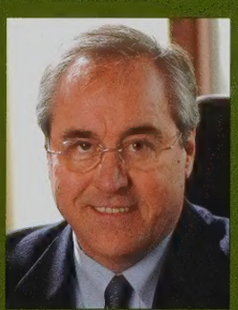
www.prtgroup.com

Standing from left to right: **George C. Stevens, Robert Maxwell, Robert A. Miller, Allan D. Laird**
Sitting from left to right: **Christopher J. Worthy, John Kitchen, Colin A. C. Dobell, Herb Markgraf**

Colin A.C. Dobell

Allan D. Laird

George C. Stevens



Christopher J. Worthy

John Kitchen

Robert A. Miller

Herb Markgraf

Robert Maxwell

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